
INSTRUCTIONS FOR 2012 PIT-B, SCHEDULE OF NEW MEXICO ALLOCATION AND APPORTIONMENT OF INCOME

GENERAL INSTRUCTIONS

Schedule PIT-B, *Allocation and Apportionment of Income Schedule*, is for taxpayers with income from sources both inside and outside New Mexico. Schedule PIT-B provides a credit against New Mexico tax equal to the New Mexico source income divided by total income everywhere. New Mexico source income is derived by allocating and apportioning total income. Schedule PIT-B is attached to and submitted with Form PIT-1.

On Schedule PIT-B, complete Column 1 by entering the net income from the federal return. The income is entered by the type of income described on each line. Each line instruction for Column 2 describes allocation and apportionment rules for the type of income, and provides specific instruction based on the New Mexico residency status of the taxpayer, or taxpayer and spouse if filing a joint return. The New Mexico residency status is defined on page 1 of Form PIT-1 instructions and reported on lines 1e and 2e, page 1 of Form PIT-1.

See *About Community and Separate Income* on this page for additional instructions when a married couple is filing a joint return and one spouse, but not both, is a resident of a community property state. When both spouses are residents of community property states, or both spouses are residents of non-community property states, the special allocation and apportionment rules do not require additional instructions.

Important Definitions. In addition to the definitions of “resident”, “first-year resident”, “part-year resident” and “non-resident” found in *Who Must File* on page 1 of the Form PIT-1 instructions, the following definitions and

general instructions help to complete Schedule PIT-B. More information on completing Schedule PIT-B appears in the specific line instructions.

Allocation and Apportionment

Allocated Income means, for purposes of this form, *non-business* income reported on lines 1 through 7 of Schedule PIT-B. Using the specific line instructions, base the allocation on either:

- the date you received the income (e.g., wages, interest or dividends of a first-year resident), or
- the location of the income-earning property or activity (e.g., rent and royalty income).

Apportioned Income means, for purposes of this form, *business and farm* income you report on line 8 of Schedule PIT-B. Business and farm income includes income reported on federal Schedule C, Schedule C-EZ, Schedule F or other schedules that characterize income as business-related. Business income is apportioned based on the location of the income-earning property or activity.

About Community and Separate Income. The laws of the state of domicile generally govern whether you have community property and community income — or separate property and separate income — for federal and state tax purposes. Community property states are: New Mexico, Arizona, California, Idaho, Louisiana, Nevada, Texas, Washington and Wisconsin.

New Mexico is a community property state, and all assets and liabilities acquired during a marriage are the community property of both spouses, unless the property is separate property. Community income is income from community property acquired

by persons domiciled in a community property state during the marriage. It can be either non-business income (e.g., wages, salaries, dividends, interest, royalties, rents, etc.) or business income (e.g., Schedule C gross receipts or farm income).

When a couple files Married Filing Joint, all income and payments are combined and tax is computed on the sum of all community and separate income. When a couple files Married Filing Separately, each spouse reports 50% of community income and all income generated from the separate property of the spouse who owns the property. When a couple's income is not evenly divided, you must attach a statement reflecting the correct division of community and separate income and payments.

In addition to the statement of a correct division of income, special instructions for completing Schedule PIT-B are generally needed when one spouse, but not both, resides in a community property state and they have income from sources both in and out of New Mexico. See *Allocation of Community and Separate Income* in the next section.

For general guidance for determining whether income is community income or separate income, see the New Mexico Publication FYI-310, *Community Property, Divorce, Separation, and Your New Mexico Income Tax*, and the IRS Publication 555, *Community Property*. You can download these publications from the TRD web site, www.tax.newmexico.gov and the IRS web site, www.irs.gov.

Allocation of Community and Separate Income. When one spouse, but not both, is a resident of a community property state, half of the community

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income of the spouse who is a resident of a community property state is equally divided between both spouses, and 100% of the separate income is treated as if it was the income of the spouse who owns the property. For your records, create a worksheet of the income of each spouse, dividing the community income equally between each spouse and assigning 100% of separate income to the spouse owning the separate property. Determine the New Mexico residency status of each spouse. Using the line instructions, determine the correct allocation and apportionment rules to apply to the type of income for each spouse, based on the spouse's New Mexico residency status.

Example 1. A New Mexico full-year resident and a Colorado resident (non-resident) are married and file a joint return. The New Mexico resident incurs wage income from employment in Texas. Because New Mexico is a community property state and the resident spouse is domiciled in New Mexico, the resident spouse's wage income is community property. Half the wage income from employment in Texas is the property of each spouse. The instructions for line 1, Schedule PIT-B, require that half of the New Mexico resident's wage income is allocated in full, to New Mexico, even if the income was not earned in New Mexico. The non-resident spouse's share of the community wage income is not allocated to New Mexico, because the income is not from performing services in New Mexico.

Example 2. The same facts as in example 1, except that the wage income was the separate income of the New Mexico resident spouse due to a separation agreement. All wage income is allocated to New Mexico, because the spouse entitled to the benefit of the entire amount of wage income is a resident of New Mexico. The New Mexico resident must allocate that wage income according to the line instructions for a "resident" taxpayer on line 1, Schedule PIT-B.

Example 3. The same facts as in example 1, except that wages from

employment in Texas were earned by the non-resident spouse who was domiciled in Texas. Because the non-resident spouse is domiciled in a community property state, the wage income is community property. When both spouses are residents of community property states or both spouses are residents of non-community property states, the allocation and apportionment rules do not require additional instruction. Half the community income is allocated to New Mexico based on the instructions for the resident spouse's share of the community income. The other half of the community income is not allocated to New Mexico based on the instructions for the non-resident spouse's share of the community income.

Example 4. If both spouses are residents of New Mexico, all of the community wage income is allocated to New Mexico.

Military Servicemember's Spouse.

Beginning with tax year 2009, a military servicemember's spouse, who moves to a state solely to be with their spouse who is in that state because of military orders, may keep the residency status of their state of domicile and allocate their non-military wages, salaries, tips and other income from services performed, to their state of residence, even if it was earned in another state.

Certain restrictions apply:

- The servicemember must have declared "legal residence for purposes of withholding state income taxes from military pay" in their state of domicile.
- The servicemember must be in the new state in compliance with military orders.
- The servicemember's spouse must be in the new state solely to be with their spouse.

IMPORTANT: The servicemember continues to allocate non-military income from services performed to the state in which the income was earned.

A resident of New Mexico who is a qualifying servicemember's spouse living in another state, completes New Mexico Form PIT-1, as a resident taxpayer and allocates wages, salaries, tips and other income from services performed as if they were earned in New Mexico. They do so, even if the income was earned in another state. See *Guidance for New Mexico Resident Military Spouses Claiming Relief From Another State's Income and Withholding Tax Requirements*, on the Department's web site at www.tax.newmexico.gov for details. Search for Form RPD-41348 and select the *Guide* link.

A non-resident of New Mexico who is a qualifying servicemember's spouse living in New Mexico, completes New Mexico Form PIT-1, as a non-resident taxpayer and allocates income from services performed in New Mexico to their state of domicile. A part-year or first-year New Mexico resident who is a qualifying servicemember's spouse allocates income from services performed in New Mexico to New Mexico during periods in which they were residents of New Mexico.

A qualifying servicemember's spouse working in New Mexico must also mark the box at the top of Schedule PIT-B, indicating whether they are the primary taxpayer or spouse and that they qualify for relief under the Military Spouses Residency Relief Act.

A military servicemember's spouse, who is eligible to claim an exempt New Mexico withholding status based on the Military Spouses Residency Relief Act, must annually submit Form RPD-41348, *Military Spouse Withholding Tax Exemption Statement*, to the employer or payor responsible for withholding New Mexico tax. A copy, signed by the employer or payor, must be kept in the taxpayer's records. Do not submit Form RPD-41348 with Form PIT-1 unless the Department requests the copy. A new Form RPD-41348 must be signed by the employer or payor annually, or when the military servicemember's spouse situation changes.

STEPS FOR COMPLETING SCHEDULE PIT-B

Please read the section *Filling in your tax return* on page 17 of the Form PIT-1 instructions for general information.

Complete your federal return and your New Mexico Form PIT-1 through line 14 before beginning Schedule PIT-B.

The instructions for Schedule PIT-B apply to virtually all taxpayer situations. If you believe your situation is not addressed in these instructions, or if the following instructions for apportionment do not fairly represent the extent of your business activity in New Mexico, you may petition — or the Department may require you — to use another method to apportion all or any part of your business income.

Other methods may include:

- use of apportionment by excluding any one or more of the usual three factors, **or**
- use of apportionment, but including one or more additional factors, **or**
- use of any other method necessary to bring about a fair apportionment of business income.

You may call (505) 827-0827 for additional guidance.

STEP 1

Gather any additional forms or publications you need. See *Contacting the Department* on page 13 of the Form PIT-1 instructions.

STEP 2

Assemble any additional tax records you need to show the sources of your income items. Some taxpayers find it helpful to make a work paper identifying the source of each income item reported for federal income tax purposes.

STEP 3

Fill in your Schedule PIT-B. Fill in your return using the specific line instructions that begin on this page. For Column 2, follow the instructions for your residency status as reported in boxes 1e and 2e of Form PIT-1. The definitions of “resident”, “first-year resident”, “part-year resident” and “non-resident” are in *Who Must File* on page 1 of the Form PIT-1 instructions.

STEP 4

If you have an entry on line 8, Column 1, complete the worksheet on page 2 of Schedule PIT-B unless the entry on line 8, Column 2 is the

same as Column 1 or is zero. Line instructions for the worksheet begin on page 8B.

STEP 5

Check the figures on your Schedule PIT-B and, if applicable, the worksheet.

Make sure the arithmetic is correct, and you have limited your calculations when required.

Remember that residents must allocate income and deductions on lines 1, 2, 3 and 7 in full to New Mexico.

Ensure that page 1 of the Schedule PIT-B shows your correct name and social security number, and you have answered all required questions.

STEP 6

Continue with Form PIT-1. Check that you have correctly transferred your tax liability from line 14 of Schedule PIT-B to line 18 of Form PIT-1, and that you have placed a “B” in the box on line 18a indicating that a PIT-B was used to compute your tax. Continue with the line instructions and remaining steps for completing your 2012 Form PIT-1.

LINE INSTRUCTIONS FOR SCHEDULE PIT-B

For each line item complete Column 1 first. The amount for Column 1 is generally taken from your federal return. The instructions tell you the amount to enter in Column 2 according to your residency status. Use the correct residency status instructions.

We provide no instructions for items or lines that are self-explanatory; for example, lines requiring addition or subtraction.

References to line numbers on federal forms are only a convenience. They are based on information available to the Department at the time of printing.

NAME, SOCIAL SECURITY NUMBER AND RESIDENCY

Enter the primary taxpayer’s first name, middle initial, last name and social security number exactly as they appear on your Form PIT-1.

Part-year and first-year residents enter the beginning and ending date within the tax year in which the taxpayer was a resident of New Mexico. If married filing joint, and your spouse’s residency period is different, enter the period of residency for your spouse. If additional periods of residency apply, write them in the space below the line on the Schedule PIT-B.

If either the primary taxpayer or spouse is a qualifying military servicemember’s spouse (See *Military Servicemember’s Spouse*, on page 2B in these instructions.), is not a resident of New Mexico and is allocating income earned from services performed in New Mexico to their state of residence, they must also mark the box at the top of Schedule PIT-B, indicating whether they are the primary taxpayer or spouse and that they qualify for relief under the Military Spouses Residency Relief Act.

LINE 1

Wages, Salaries, Tips, Etc.

New Mexico **residents** must allocate

in full to New Mexico all amounts on line 1, Column 1, on Schedule PIT-B. If the income was earned outside New Mexico and tax was paid to the other state on that income, the taxpayer may claim a non-refundable CREDIT for the tax paid to the other state on that income. See the instructions for line 20 of 2012 Form PIT-1 to calculate the credit for taxes paid to another state. **Non-residents** allocate income from line 1 to New Mexico only if the wages were earned in New Mexico.

Column 1: Enter the amount of wages, salaries, tips, etc., from line 7 of federal Form 1040 or 1040A, or line 1 of Form 1040EZ.

Column 2: Resident. Enter the same amount you entered in Column 1.

First-year resident. Enter all wages, salaries, tips, etc., earned in New Mexico before establishing New Mexico residency and all wages, salaries, tips, etc., earned inside and outside New Mexico after establishing New Mexico residency.

Part-year resident. Enter all wages, salaries, tips, etc., earned inside and outside New Mexico during the part of the year that you were a resident of New Mexico **and** all wages, salaries, tips, etc., earned in New Mexico during the part of the year you were a non-resident.

Non-resident. Enter that part of Column 1 that came from performing services in New Mexico.

Payment for annual leave, sick leave and holiday leave associated with employment or services performed in New Mexico is New Mexico income. Non-residents who work regularly in New Mexico but who are temporarily assigned to duty outside New Mexico may use the PIT-110 Worksheet, *Adjustment to New Mexico Income*. **NOTE: "Temporarily assigned to duty outside New Mexico" does not include partial days.** PIT-110 worksheet forms are available from any of the Department's offices or the Department's web site.

If your taxable wages and other compensation include moving expenses,

the compensation is taxable to New Mexico only if the move is made from another state into New Mexico.

Non-resident Military Wages or Salary. Exclude from line 1, Columns 1 and 2, any military wages or salary earned by a non-resident servicemember, that was also included in federal adjusted gross income **and** reported on line 9 of Form PIT-1. If you changed your domicile or residency to, or from, New Mexico during the tax year, exclude only the military salary or wages earned by the servicemember, while a non-resident of New Mexico. If any or all of the wages or salaries were for active duty military service in the United States Armed Forces, that amount is also included in the amount that you deducted from your New Mexico taxable income on line 16, PIT-ADJ.

Non-resident Servicemember's Non-military Wages or Salary. Include in line 1, Columns 1 and 2, all non-military wages or salary that you earned from services performed in New Mexico.

Qualifying Non-resident Military Servicemember's Spouse. A qualifying non-resident military servicemember's spouse (see page 2B) who has a signed Form RPD-41348, *Military Spouse Withholding Tax Exemption Statement*, may allocate income earned from services performed in New Mexico to their state of residence by excluding the income in Column 2.

Qualifying Resident Military Servicemember's Spouse. A qualifying New Mexico resident military servicemember's spouse may allocate income earned in another state to New Mexico by including the income in Column 2.

A first-year or part-year resident who is a qualifying military servicemember's spouse may allocate income earned from services performed in another state to New Mexico during the part of the year they were a resident by including the income in Column 2. During the part of the year they were a non-resident, allocate income earned in another state from

services performed in that other state, by excluding it from line 1, Column 2, Schedule PIT-B.

LINE 2 Interest & Dividends

New Mexico **residents** *must* allocate in full to New Mexico all amounts on line 2, Column 1, on Schedule PIT-B. If tax was paid to another state on that income, the taxpayer may claim a non-refundable CREDIT for the tax paid to the other state on that income. See the instructions for line 20 of 2012 Form PIT-1 to calculate the credit for taxes paid to another state.

Column 1: Enter the federal taxable dividends and interest from federal Form 1040, 1040A or 1040EZ. Include the municipal bond income by subtracting the New Mexico tax-exempt interest and dividends reported on line 6, Schedule PIT-ADJ from the amount of federal tax-exempt dividends and interest reported on line 1, Schedule PIT-ADJ. Enter the result on line 2, Column 1.

Column 2: Resident. Enter the same amount you entered in Column 1.

First-year resident. Enter that portion of interest and dividends you received after establishing your residence in New Mexico. You must use the date your interest and dividends were payable to determine when they were received.

Part-year resident. Enter the interest and dividends you received while a resident of New Mexico. Use the date your interest and dividends were payable to determine when you received them.

Non-resident. If you are a non-resident with no commercial domicile in New Mexico, enter zero in Column 2. If you operate a business with a commercial domicile in New Mexico, allocate non-business interest and dividend income from the New Mexico operations, if any, to New Mexico.

Commercial Domicile is, for the purposes of this form, the principal place where you direct or manage a trade or business.

LINE 3
Pensions, Annuities, Social Security and Lump-Sum Distributions

New Mexico **residents** must allocate in full to New Mexico all amounts on line 3, Column 1, on Schedule PIT-B. If tax was paid to another state on that income, the taxpayer may claim a non-refundable CREDIT for the tax paid to the other state on that income. See the instructions for line 20 of 2012 Form PIT-1 to calculate the credit for taxes paid to another state.

Column 1: Enter the total amount of pensions and annuities from your federal return. Include the ordinary income reported on federal Form 4972, *Tax on Lump-Sum Distributions*.

Column 2: Resident. Enter the same amount you entered in Column 1.

First-year resident. Enter the portion of pensions and annuities you received after establishing residence in New Mexico. Also enter the ordinary income portion of any lump-sum distribution from federal Form 4972 you earned the right to receive while a New Mexico resident.

Part-year resident. Enter that portion of pensions and annuities you received while you were a resident of New Mexico. Also enter the ordinary income portion of any lump-sum distribution from federal Form 4972 you earned the right to receive while a New Mexico resident.

Non-resident. Pension and annuity income of a non-resident are not allocated to New Mexico. Enter zero in Column 2.

NOTE: Effective for retirement income received after December 31, 1995, federal law prohibits any state from imposing an income tax on certain retirement income (primarily pension income) of an individual unless that person is a resident of or domiciled in the state imposing the tax. For example, if you receive a pension from your former California employer, but you have established your domicile in New Mexico, California may not impose its income tax on that retirement

income. New Mexico may impose its income tax on the retirement income of New Mexico residents.

LINE 4
Rents & Royalties

All taxpayers with income from real property (including rents and royalties from oil and gas interests), tangible personal property, or intangibles located or used in New Mexico must allocate and apportion the income or loss based on the location of the income-earning property. "Intangibles" are copyrights, patents, franchises, trademarks and licenses. For example, if rental property is located in New Mexico, include the income in Column 2 on Schedule PIT-B. Income or royalties from any of these sources reported on federal Schedule C or similar business income schedules should appear on line 8 of Schedule PIT-B and not on line 4.

Column 1: Enter the net amount of rents and royalties from your federal return (Schedule E).

Column 2: All taxpayers. Enter the net amount of rents and royalties from the following New Mexico sources:

- rents from real property located in New Mexico;
- rents from tangible personal property located or used in New Mexico;
- income from royalties and working interests in oil and gas producing properties located in New Mexico; and
- income from patents, copyrights, franchises, trademarks and licenses used in New Mexico.

In addition to the above, **residents** allocate income from intangible and tangible personal property used in another state if the New Mexico **resident** is not subject to tax on the income in the other state. First-year residents and part-year residents allocate the income described above to New Mexico if the income was earned during a part of the year that the individual was a resident of New Mexico.

A *patent* is used in New Mexico to the extent it is employed in production, fab-

rication, manufacturing or other processing in New Mexico or when a patented product is produced in New Mexico.

A *copyright* is used in New Mexico when the printing or other production is accomplished in New Mexico.

Use the following calculation if you do not know the extent to which tangible personal property was used within New Mexico:

To compute the percentage of time the property was located in New Mexico during the tax year, divide the number of days the property was physically located in New Mexico during the rental or royalty period by the total number of days the property was physically located everywhere during the rental or royalty period.

EXAMPLE: An out-of-state taxpayer rents a drilling rig to a New Mexico taxpayer. The drilling rig is in New Mexico for 90 days. The rig is rented for a total of 270 days during the tax year in several states.

$$\begin{aligned} &90 \text{ days located in N.M.} \div \\ &270 \text{ total days everywhere} = \\ &33.3\% \text{ percent of time in N.M.} \end{aligned}$$

Multiply the total rents and royalties received for the tax year by the calculated percentage. The result is the rent and royalty income allocable to New Mexico. Enter this amount on line 4, Column 2.

If you cannot determine the location of the tangible personal property during the rental or royalty period, enter the rental or royalty income from those in New Mexico to whom property was delivered. Enter the total rental or royalty income for the tangible personal property from line 4, Column 1 on line 4, Column 2.

When the basis for earnings from intangibles used in New Mexico and elsewhere does not permit allocation to a definite state, or when the accounting procedures do not show clearly the state or states where the intangible was used, enter the total income from all intangibles if you are a resident of New Mexico or if the

business deriving the income has a commercial domicile in New Mexico.

LINE 5

Gains or Losses From the Sale or Exchange of Property

All taxpayers with income on line 5 from the sale or exchange of property, allocate and apportion the income or loss based on the location of the income-earning property or activity. For example, if a gain is realized on the sale of real property located in New Mexico, include the income in Column 2 on Schedule PIT-B.

Column 1: Enter the net amount of gains or losses from the sale or exchange of property from your federal Form 1040 or 1040A.

Column 2: All Taxpayers. Enter the net amount of a gain or loss from the sale or exchange of the following:

- real property located in New Mexico;
- tangible personal property located in New Mexico at the time of sale;
- tangible personal property located in another state at the time of sale if the taxpayer is a New Mexico resident or part-year resident (see the PIT-1 instructions for residency definitions);
- tangible personal property of a business located in another state at the time of sale when the taxpayer is not subject to tax in that state, the taxpayer's commercial domicile is in New Mexico, and the income is not subject to apportionment on line 8; and
- intangible personal property if the taxpayer is a New Mexico resident, part-year resident or has a commercial domicile in New Mexico, and the income is not subject to apportionment on line 8.

LINE 6

Income or Losses From Pass-Through Entities

Income or losses from pass-through entities and trusts is allocated and apportioned to New Mexico on line 6. The pass-through entity or trust should provide you the information necessary to complete Column 2.

Distributions of ordinary income (losses) to partners, members or owners of partnerships, limited liability companies and Sub-Chapter S corporations shall be allocated on Schedule PIT-B, line 6, based on where the income-producing activities occur. Distributions of other non-business income shall be allocated on the remainder of Schedule PIT-B, based on the type of income and the residency status of the partners, members or owners.

NOTE: Federal Schedule E and Schedule K-1 may include income from both business and non-business sources. New Mexico does not have a form equivalent to the federal Schedule K-1. Each partnership, S corporation, estate, trust or similar pass-through entity should provide a statement or report showing the correct allocation and apportionment of income and the distribution of income to partners, shareholders or beneficiaries. The partner, shareholder or beneficiary should retain the statement in his records.

Column 1: From your federal return (Schedule E), enter your share of income or losses from such pass-through entities as partnerships, S corporations, trusts or limited liability companies.

Column 2: All Taxpayers. Enter that portion of Column 1 income allocated and apportioned to New Mexico by the pass-through entity or the trust.

All income a pass-through entity or a trust allocates or apportions to New Mexico is taxable in New Mexico. Income from pass-through entities and trusts must be allocated or apportioned under the Uniform Division of Income for Tax Purposes Act. If the pass-through entity or trust does not provide the necessary New Mexico apportionment percentages or information that allows calculation of a percentage, New Mexico presumes all distributive amounts from the pass-through entity or trust to be New Mexico-source income.

LINE 7

All Other Income

New Mexico **residents** must allocate

in full to New Mexico all amounts on line 7, Column 1, on Schedule PIT-B. If tax was paid to another state on that income, the taxpayer may claim a non-refundable CREDIT for the tax paid to the other state on that income. See the instructions for line 20 of 2012 Form PIT-1 to calculate the credit for taxes paid to another state.

Important: Do not enter a net operating loss carry forward on Schedule PIT-B.

Column 1: Enter the total of all other income shown on your federal Form 1040, 1040A or 1040EZ and not reported in another section of the Schedule PIT-B. Do not enter business and farm income to be apportioned on line 8.

Column 2: Resident. Enter the same amount you entered in Column 1.

First-year Resident. Enter all other income earned from New Mexico sources before establishing New Mexico residency and all other income earned, regardless of source, after establishing New Mexico residency.

Part-Year Resident. Enter all other income earned, regardless of source, while you were a New Mexico resident, and all other income earned from New Mexico sources.

Non-residents. Enter that portion of Column 1 derived from sources within New Mexico.

Income from **gambling winnings** from a New Mexico source may **not** be offset by gambling losses on Schedule PIT-B. You must report gambling winnings from a New Mexico source regardless of your residency status.

Income from **unemployment compensation** is allocated to the recipient's state of residence at the time the payment was received, regardless of the state paying the unemployment compensation benefit.

LINE 8

Business and Farm Income

Apportion income from business and farm sources using the *Worksheet for*

Apportionment of Business and Farm Income on page 2 of Schedule PIT-B. New Mexico uses an evenly weighted three-factor formula for all taxpayers except manufacturers and certain electricity-generation facilities who may elect to use a four-factor formula. See the instructions for 2012 Schedule PIT-B (page 2) for further details.

Column 1: Enter the total business and/or farm income reported on your federal Schedule C(s), Schedule F(s) or other similar schedules.

Column 2: All Taxpayers. If **ALL** income in Column 1 is from New Mexico sources, enter the entire amount in Column 2. If **NONE** of the income in Column 1 is from New Mexico sources, enter zero.

If you have income from a farm or business earned in New Mexico AND one or more other states, complete lines 1 through 5 of the worksheet on page 2 of Schedule PIT-B. (Detailed instructions for completing the worksheet begin on page 8B.) After completing the worksheet, multiply the amount on line 8, Column 1 of Schedule PIT-B by the decimal amount on line 5 of the worksheet. Enter the result on line 8, Column 2 of Schedule PIT-B.

If you have multiple businesses or farms on line 8, Column 1, the total of which includes income allocated both inside and outside New Mexico, perform the calculations from the Schedule PIT-B, page 2, for each business or farm on a separate schedule and summarize the amounts allocated to New Mexico on line 8, Column 2. See the instructions for Schedule PIT-B, page 2 for more information. Attach the worksheet for each business or farm with your PIT-1 return and Schedule PIT-B, page 1.

NOTE: No business may use the separate accounting method.

LINE 10 Federal Adjustments to Income

Column 1: Enter the total federal adjustments to income from line 36 of your federal Form 1040 or line 20 of federal Form 1040A.

Column 2: All Taxpayers. The entry on line 10, Column 2 is simply a mathematical calculation. Divide line 9, Column 2 by line 9, Column 1. The result is the percentage of total income allocated to New Mexico. Use three decimal places to determine your percentage; for example, 0.453 or 45.3%. Multiply this percentage by the amount on line 10, Column 1. Enter the result on line 10, Column 2. The result is your allowable New Mexico Adjustments to Income.

LINE 11 Total Income

For most taxpayers, total income on line 11, Column 1 must equal or exceed the amount on line 6, Form PIT-1, Federal Adjusted Gross Income. If it does not, please check your figures.

NOTE: If you are a non-resident member of the United States Armed Forces reporting military wages or salary, complete line 11 as instructed. Because of prior calculations for PIT-B, line 1, your total income on line 11, Column 1, may be less than the federal adjusted gross income you reported on line 9 of Form PIT-1. This is not an error.

LINE 12 Computation of Percentage of New Mexico Income

Divide the amount on line 11, Column 2 by the amount on line 11, Column 1. Enter the result on line 12. Round to three decimal places. The percentage

you enter on line 12 cannot be less than zero. **NOTE:** In the event the New Mexico percentage exceeds 100% because of the allocation of losses, use 100% (1.000).

LINE 13 New Mexico Income Tax to be Allocated

Calculate the tax due on the New Mexico taxable income reported on line 17 of Form PIT-1. Enter that calculated tax amount on line 13 of Schedule PIT-B, plus the tax if any, calculated on a lump-sum distribution from line 19 on Form PIT-1.

NOTE: If you used Schedule PIT-B to calculate New Mexico tax liability on line 17, Form PIT-1 and also computed tax on a lump-sum distribution on line 19, Form PIT-1, DO NOT add lines 18 and 19 when completing line 22, Form PIT-1 as instructed. The additional amount of tax for lump-sum distributions, line 19, Form PIT-1, should not be added back when completing line 22, Form PIT-1. Instead, enter the computed additional tax on the lump-sum distribution on line 19, Form PIT-1 but do not add line 19 again when completing line 22 of Form PIT-1. Line 19 is included when the PIT-B percentage was calculated.

LINE 14 Allocated New Mexico Income Tax Liability

On Schedule PIT-B, multiply the percentage on line 12 by the tax on line 13. This is the allocated New Mexico income tax liability. Enter this amount on line 14 of Schedule PIT-B and line 18 of the Form PIT-1. Mark the box on line 18a, Form PIT-1 with a "B" indicating the tax calculation comes from Schedule PIT-B.

Apportionment of Business and Farm Income

Complete the worksheet on page 2 of Schedule PIT-B **ONLY** if you have business or farm income on line 8, Column 1, from both inside and outside New Mexico. Attach the worksheet to your PIT-1 return and Schedule PIT-B, page 1.

NOTE: If you have multiple businesses or farms on line 8, Column 1, the total of which includes income allocated from both inside and outside New Mexico, perform the calculations from the Schedule PIT-B, page 2 for each business or farm on a separate schedule and summarize the amounts allocated to New Mexico on line 8, Column 2. Attach the worksheet(s), page 2 of Schedule PIT-B to your Form PIT-1 and Schedule PIT-B, page 1. If submitting the return in paper, a schedule on a separate page in the same format as Schedule PIT-B, page 2 may be used in lieu of attaching multiple pages of Schedule PIT-B, page 2.

New Mexico uses an evenly weighted three-factor formula for all taxpayers except certain manufacturers.

Taxpayers whose principal activity is manufacturing may choose to use a four-factor formula (sales x 2, plus property and payroll) for tax years beginning on or after January 1, 1995 and before January 1, 2020. The manufacturer must use the four-factor method for a total of three consecutive tax years covering at least 36 calendar months.

Manufacturing means, for purposes of electing the four-factor apportionment method, combining or processing components or materials to increase their value for sale in the ordinary course of business. Manufacturing does not include construction, farming, processing of natural resources, and most power generation.

A taxpayer may use this option if the business' combined property and

payroll factor percentages in the state exceed the sum of the taxpayer's property and payroll factor for the first tax year beginning on or after January 1, 1991. The taxpayer must make the election to use the four-factor method in writing no later than the filing date of the first return to which the election will apply. Statutory authority for this elective method is in Section 7-4-10(B) NMSA 1978.

Qualified manufacturers electing the four-factor formula should make the following adjustments when completing the worksheet on page 2 of Schedule PIT-B:

- Line 3, sales factor. Divide Column 2 by Column 1. Multiply the result by 2 for the entry on line 3b.
- Line 5, apportionment percentage. Divide the total percent on line 4 by 4. Compute to three decimal places.

In addition, if you have elected the four-factor method, enter the effective date of the election at the bottom of the worksheet form.

Eliminating factors. If the allocation and apportionment provisions of the Uniform Division of Income for Tax Purposes Act do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may without prior approval or the Department may require - if reasonable - the exclusion of any one or more of the factors (property, payroll or sales). This would include removal of one or more of the factors whose factor is insignificant. A factor is insignificant if the denominator (column 1) is between 0% and 3% of net income. Use the number of significant factors included to compute the average. If you include an insignificant factor, attach an explanation.

**LINES 1a and 1b
Property Factor**

This factor is a percentage determined as follows:

Divide Column 2: The average value (see rules below) of the real and tangible personal property owned or rented and used in New Mexico for the production of business or farm income during the tax period,

By Column 1: The average value (see rules below) of all real and tangible personal property owned or rented and used everywhere for the production of business or farm income during the tax period.

NOTE: A resident using his or her home in any way in a business or farm operation has a property factor in New Mexico.

To determine the average value of real and tangible personal property, use the following rules:

- Property the taxpayer owned during the tax period shall be valued at its original cost. Original cost is the basis of the property for federal income tax purposes (prior to federal adjustments) at the time of acquisition by the taxpayer and adjusted by subsequent capital additions, improvements or partial dispositions;
- Property the taxpayer rented from others and used for business or farm purposes shall be valued at eight times the net annual rental rate. The net annual rental rate is the annual rent paid by the taxpayer, less any annual rent received by the taxpayer from sub-rentals of the same property;
- Determine the average value of property by adding the total value of property held by the taxpayer at the beginning of the tax period to the total value of property held at the end of the tax period. Divide by two; and
- A taxpayer may compute an average value on a monthly basis. If the Department determines that a monthly average is necessary to correctly reflect the average value of the taxpayer's property, the Department may require the taxpayer to compute an average value on a monthly basis.

LINES 2a and 2b
Payroll Factor

This factor is a percentage determined as follows:

Divide Column 2: The total amount paid as compensation to employees in New Mexico during the tax period,

By Column 1: The total amount paid as compensation to employees everywhere during the tax period.

Compensation was paid in New Mexico if any one of these conditions is present:

- the employee's service was performed entirely in New Mexico, **or**
- the employee's service was performed both inside and outside New Mexico, but service performed outside New Mexico was incidental to service performed inside New Mexico, **or**
- some of the employee's service was performed in New Mexico, and New Mexico was the base of operations or the place from which the service was directed or controlled, **or**
- some of the employee's service was performed in New Mexico, and the employee was a resident of New Mexico during the tax period.
In this instance it does not matter

if some of the employee's service was performed in another state that was the base of operations or the place from which the service was directed or controlled.

LINES 3a and 3b
Sales Factor

This factor is a percentage determined as follows:

Divide Column 2: Your sales in New Mexico during the tax period (exclude non-business income),

By Column 1: Your total sales everywhere during the tax period (exclude non-business income).

"Sales" means all gross receipts from transactions and activity in the regular course of business.

Tangible personal property is sold in New Mexico when any of the following applies:

- the property was delivered or shipped to a purchaser other than the U.S. Government within New Mexico (regardless of the F.O.B. point or other conditions of sale), **or**
- the property was shipped from an office, store, warehouse, factory or other place of storage within New Mexico, **and** (a) the purchaser was

the U.S. Government, **or** (b) the taxpayer was not subject to income tax in the state where the property was sold.

Sales other than sales of tangible personal property are made in New Mexico when any of the following applies:

- the income-producing activity was performed in New Mexico, **or**
- the income-producing activity was performed both inside and outside New Mexico, but a greater proportion was performed inside New Mexico than in any other single state (the proportion shall be determined by the cost of performance in each state); **or**
- the gross receipts were from the rental, lease, licensing or any other use of either real or tangible personal property during the time the property was in New Mexico, **or**
- the gross receipts were from the performance of personal services in New Mexico.

LINE 5
Apportionment Percentage

Divide line 4 by the number of factors used. Multiply this percentage by the amount on line 8, Column 1 of Schedule PIT-B. Enter the result on line 8, Column 2 of Schedule PIT-B.

*The Department encourages all taxpayers to file electronically.
Electronic filing is fast and secure. It provides the fastest
turnaround for a refund and saves tax dollars,
costing less to process than a paper return.*